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October 30, 2003

BEST IMAGE AVAILABLE

Ms. Jennifer J. Johnson
Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 20551

Dear Ms. Jones,

I wish to take this opportunity to comment on the Basel II Accord proposal. It is my opinion that community Banks must be allowed to "Opt-In to the new proposed Basel II Accord. In addition, the Basel I Accord as adopted in 1988 must be revised to more truly reflect asset risk for those institutions that choose not to opt-in to Basel II.

As head of the Real Estate Mortgage Department for McHenry Savings Bank, I can find no reason for the thirty nine million in first mortgage portfolio loans with a loan to value of fifty percent or less should be maintained in a fifty per cent risk weight category. I further feel that first mortgage loans up to seventy percent or less loan to value ratio should be allowed a lower risk weight category.

Community banks must retain the option to leverage their capital, regardless of the complexity of the calculations to prove their risk worthiness. Small institutions will be at a competitive disadvantage to the extent that they cannot deploy capital as efficiently as larger, more sophisticated institutions.

If capital requirements are changed and new options are developed, institutions should be allowed to choose between developing their own internal risk rating systems or maintaining a modified risk-based system with more buckets and division of assets to quantify risk more appropriately.

Thanking you in advance for your consideration, I remain

Sincerely,

Robert E. Powers
Vice President

REP/me

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